

OPEN MEETING ITEM

COMMISSIONERS
KRISTIN K. MAYES – Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP



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ARIZONA CORPORATION COMMISSION

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ORIGINAL

DATE: JUNE 7, 2010

DOCKET NO.: E-01851A-09-0305

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

COLUMBUS ELECTRIC COOPERATIVE, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

JUNE 16, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JUNE 29, 2010 and JUNE 30, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

JUN - 7 2010

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES - Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION OF
9 COLUMBUS ELECTRIC COOPERATIVE, INC.
10 FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. E-01851A-09-0305

DECISION NO. _____

11 OPINION AND ORDER

12 DATE OF HEARING:

February 24, 2010

13 PLACE OF HEARING:

Tucson, Arizona

14 ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

15 APPEARANCES:

Mr. Charles C. Kretek, HOFACKET &
KRETIK, LLC, on behalf of the Columbus
Electric Cooperative, Inc.; and

Ms. Ayesha Vohra, Staff Attorney, Arizona
Corporation Commission Legal Division on
behalf of the Utilities Division.

16 **BY THE COMMISSION:**

17 * * * * *

18 Having considered the entire record herein and being fully advised in the premises, the
19 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

20 **FINDINGS OF FACT**

21 1. On June 8, 2009, Columbus Electric Cooperative, Inc. ("Columbus" or "Cooperative")
22 filed an application for a rate increase with the Commission.

23 2. On July 7, 2009, the Commission's Utilities Division ("Staff") notified the
24 Cooperative that its application was not sufficient under the requirements of the Arizona
25 Administrative Code.

26 3. The Cooperative filed revised information on July 21, 2009.

27 4. On August 20, 2009, Staff notified the Company that its rate application was
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1 sufficient, and classified the Company as a Class C utility.

2 5. By Procedural Order docketed August 26, 2009, the matter was set for hearing on
3 February 24, 2010, at the Commission's offices in Tucson, Arizona.

4 6. On January 9, 2010, the Cooperative filed certification that it mailed notice of the
5 hearing to its Arizona consumers enclosed with their September 2009 bills.

6 7. The Commission received one customer comment that suggested the increase should
7 be incorporated into the energy charge rather than the monthly charge in order to encourage
8 conservation.

9 8. The hearing convened as scheduled before a duly authorized Administrative Law
10 Judge, with the Cooperative and Staff being represented by counsel. Mr. E.L. Moss, a consultant
11 who prepared the rate application, and Mr. Chris Martinez, the Cooperative's marketing manager,
12 testified for Columbus; Ms. Candrea Allen testified for Staff. The pre-filed testimony of Ms.
13 Chrystal Brown and Mr. Prem Bahl for Commission Staff was admitted on stipulation.

14 9. Columbus is a non-profit rural electric cooperative located in Deming, New Mexico.
15 The Cooperative provides electric service to a total of 5,095 consumers, 4,633 of whom are located in
16 New Mexico and 462 in Arizona.

17 10. Columbus' current rates were authorized in Decision No. 63986 (August 30, 2001).

18 11. In the test year ended December 31, 2008, Columbus had total revenues of
19 \$10,753,611. Its Arizona test year revenues were \$653,367, which after allocated operating expenses
20 of \$727,605, produced an operating loss of \$74,238 attributed to its Arizona operations. After
21 interest expense and non-operating margins, the Cooperative posted a net loss of \$52,827 attributable
22 to its Arizona operations.¹

23 12. Columbus is seeking total annual revenue from its Arizona operations of \$671,833, an
24 increase of \$18,466, or 2.83 percent. The proposed increase would produce an operating loss of
25 \$59,107 allocable to Arizona operations, for no rate of return on a proposed Original Cost Rate Base
26 ("OCRB") of \$1,781,611. On a consolidated basis including New Mexico, Columbus would have
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28 ¹ ExS-1, Schedule CSB-6.

total revenues of \$10,980,520 which would produce an operating margin of \$869,371, a 3.8 percent rate of return on a system-wide rate base of \$22,851,724.

13. Staff recommends approval of the same total revenue requirement as proposed by the Cooperative. Staff states that although the rates recommended by Staff and Columbus result in an operating loss for the Cooperative's Arizona operations, on system-wide basis including New Mexico, Columbus would enjoy an adequate operating Times Interest Earned Ratio ("TIER") of 1.41.²

14. Columbus' current rates and those proposed by the Cooperative and Staff are as follows:

	<u>Current</u>	<u>Cooperative Proposed</u>	<u>Staff Proposed</u>
<u>Residential</u>			
Regular Rate			
Monthly Customer Charge	\$9.50	\$12.35	\$12.35
Energy Charge (kWh)	\$0.08640	\$0.08640	\$0.08640
FPPCA ³	\$0.03162	\$0.03162	\$0.03162
Time of Use Rate			
Monthly Customer Charge	\$12.00	\$15.60	\$15.60
Energy Charge (kWh)			
On Peak	\$0.09750	\$0.09750	\$0.09750
Off Peak	\$0.06000	\$0.06000	\$0.06000
FPPCA	\$0.03162	\$0.03162	\$0.03162
<u>Small Commercial</u>			
Regular Rate			
Monthly Customer Charge	\$12.50	\$16.25	\$16.25
Energy Charge (kWh)	\$0.08220	\$0.08220	\$0.08220
FPPCA	\$0.03162	\$0.03162	\$0.03162
Time of Use Rate⁴			
Monthly Customer Charge	\$15.00	\$19.50	\$19.50
Energy Charge (kWh)			
On Peak	\$0.09220	\$0.09220	\$0.09220
Off Peak	\$0.05900	\$0.05900	\$0.05900
FPPCA	\$0.03162	\$0.03162	\$0.03162
<u>Irrigation</u>			
Regular Rate			
Monthly Customer Charge	\$25.00	\$32.50	\$32.50
Energy Charge (kWh)	\$0.092000	\$0.092000	\$0.092000
FPPCA	\$0.03162	\$0.03162	\$0.03162

² Ex S-2 at 2.

³ Annual (test year) Average Fuel and Purchased Power Cost Adjustment Factor.

⁴ There are no Arizona customers using TOU rates.

⁵ There are no Arizona customers using TOU rates.

Time of Use Rate⁵

Monthly Customer Charge	\$35.00	\$45.50	\$45.50
Energy Charge (kWh)			
On Peak	\$0.10300	\$0.10300	\$0.10300
Off Peak	\$0.06000	\$0.06000	\$0.06000
FPPCA	\$0.03162	\$0.03162	\$0.03162

Lighting Service**Regular Rate**

Monthly Customer Charge			
175 Watt Mercury Vapor Lamps	\$11.75	\$11.75	\$11.75
400 Watt Mercury Vapor Lamps	\$23.50	\$23.50	\$23.50
100 Watt high Pressure Sodium	\$13.50	\$13.50	\$13.50
FPPCA	\$0.03162	\$0.03162	\$0.03162

Agriculture**Regular Rate**

Monthly Customer Charge	\$50.00	\$65.00	\$65.00
Energy Charge (kWh)	\$0.06950	\$0.06950	\$0.06950
FPPCA	\$0.03162	\$0.03162	\$0.03162

15. The recommended rates for Arizona are identical to the rates adopted in New Mexico, and the earnings by customer class are the same in both states.

16. Both the Cooperative and Staff believe that maintaining uniform rates by customer class for both states is desirable and equitable. The cost of serving Arizona customers is the same as for serving New Mexico customers, but because the Arizona system does not have many large customers and has a low density, the Cooperative experiences a deficit for its Arizona system.⁶

17. Columbus' application reflects an Arizona OCRB of \$1,784,610. Staff recommended adjustments that result in a net decrease of \$85,045, to \$1,699,565. Staff's adjustments removed \$2,500 attributed to Construction Work in Process ("CWIP") because it was not used and useful in the test year; and removed \$82,545 for Cash Working Capital because the Cooperative did not conduct a lead-lag study. Staff believes it is inequitable for a utility as large as Columbus to calculate working capital by using a method that ignores customer-provided capital and guarantees a positive working capital result.

18. Staff's rate base adjustments are reasonable and should be adopted. The Cooperative did not request a Reconstruction Cost New Rate Base and its Fair Value Rate Base ("FVRB") is deemed to be the same as its OCRB. Columbus' Arizona FVRB is determined to be \$1,699,565.

⁶ Tr. at 14-15.

1 19. In the test year, the Cooperative reported Arizona revenues of \$653,367. Staff
2 accounted for the cost of power differently than the Cooperative, but Staff did not alter the ultimate
3 determination of test year revenues. The Cooperative reported Arizona Operating Expenses totaling
4 \$729,940, resulting in an Operating Loss of \$76,573. Staff adjusted Operating Expenses, by
5 removing \$2,334, representing dues, charitable contributions and sponsorships, food and
6 scholarships. Staff's adjustment resulted in total Operating Expenses of \$727,605, which resulted in
7 an Arizona adjusted test year Operating Loss of \$74,238.

8 20. Staff's adjustments are reasonable and the Cooperative did not object. Therefore we
9 find that in the test year, Columbus experienced an Operating Loss of \$74,238, and a Net Loss of
10 \$52,827, after interest on long-term debt and the addition of other operating margins.

11 21. The revenue increase of \$18,466, agreed to by Columbus and Staff, is reasonable and
12 results in a small loss attributable to the Cooperative's Arizona operations.

13 22. Columbus has not proposed a change to its base cost of power, which is currently
14 \$0.04172 per kWh. During the period January 2009 through October 2009, the actual cost of power
15 ranged from a low of \$0.068442 per kWh in April to a high of \$0.90739 per kWh in July. Columbus
16 has a Fuel and Purchased Power Cost Adjustment ("FPPCA") mechanism that allows it to collect or
17 refund any differences between its base cost of power and its actual purchased power costs.

18 23. Staff recommends that Columbus' current base cost of power remain unchanged.⁷

19 24. As of October 31, 2009, Columbus' FPPCA was \$0.0295558, and at that time, the
20 purchased power bank balance was under-collected by \$26,189.

21 25. Columbus currently has the authority to change its FPPCA rate without Commission
22 approval. Staff reports that with the exception of Sulphur Springs Valley Electric Cooperative, Inc.,
23 electric cooperatives in Arizona do not require Commission approval to change the FPPCA rate.
24 Staff does not recommend any changes to the way Columbus manages its FPPCA mechanism. Staff
25 does not believe there has been substantial under-collected bank balances to warrant a change, and
26 notes that from January 2009, through October 2009, Columbus did not have any over-collected bank
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28 ⁷ Ex S-2, Allen Direct Testimony at 3.

1 balances.

2 26. The rates proposed by the Cooperative and Staff would increase a residential bill by
3 \$2.85 per month.⁸ Thus, a residence using 50 kWhs per month would see an increase from \$15.40 to
4 \$18.25, or 18.51 percent, a residence using 250 kWhs per month would see an increase from \$39.01
5 to \$41.86, or 7.31 percent, and a residence using 500 kWhs per month would see an increase from
6 \$68.51 to \$71.36, or 4.16 percent.

7 27. The rate design is identical to that approved by New Mexico and is just and
8 reasonable and should be adopted. It is in the public interest that all of Columbus'
9 members/ratepayers are treated similarly.

10 28. Columbus has not proposed to modify any portion of its Rules and Regulations for
11 Line and Service Extensions. Staff notes that currently the Rules and Regulations include a section
12 that describes the instances where the Cooperative would provide line and service extensions without
13 charge to the customer. Currently, to determine if a customer will be charged for a line and service
14 extension, Columbus performs an economic feasibility study. If the investment is not more than five
15 times the estimated annual revenue less fuel and purchased power, Columbus will construct the
16 extension with no up-front charge to the customer.

17 29. Staff believes that Columbus should revise its rules and regulations for line and
18 service extensions to remove the language referring to an economic feasibility study. Staff believes
19 that this would ensure that Columbus' Rules and Regulations for Line and Service Extensions are
20 consistent with recent Commission decisions issued for other electric utilities which have eliminated
21 "free" line extensions.⁹

22 30. Columbus objected to Staff's recommendation to modify its line and service extension
23 policy.¹⁰ Columbus does not believe it is in the public interest to have different line extension policies
24 in Arizona and New Mexico.¹¹ Furthermore, the Cooperative does not characterize the policy as
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26 ⁸ Because the only rate proposed to be changed is the monthly charge, all consumers receive the same \$2.85 increase,
which amount represents a lower percentage increase with increased usage.

27 ⁹ Citing Decision No. 70289 (Graham County Electric Cooperative); Decision No. 70185 (Arizona Public Service
Company); Decision No. 70360 (UNS Electric, Inc.); and Decision No. 71230 (Trico Electric Cooperative, Inc.)

28 ¹⁰ Tr. at 20-21.

¹¹ Tr. at 20.

1 resulting in a "free" allowance for line extensions.¹² Mr. Martinez explained that the customer is
2 asked to enter into an agreement with Columbus under which the customer agrees to guarantee a
3 minimum take of energy over five years. The customer is asked for a contribution in aid of
4 construction in the amount over and above the revenue credit. Mr. Martinez testified that Columbus
5 has customers with accounts in both New Mexico and Arizona, and it is important to the Cooperative
6 to be consistent between states and that all customers be treated the same.¹³

7 31. Staff's recommendation concerning the line extension policy is consistent with the
8 Commission's recent Decisions for other electric utilities in Arizona. The purpose of Staff's
9 recommendation is to be consistent with these other Decisions.¹⁴ In this case, the Cooperative
10 conducts an analysis and requires new customers to take a minimum amount of power over five
11 years, and asks for a contribution in aid of construction if the revenues under such contract do not
12 exceed the cost of the new line. Columbus has employed this policy for at least 19 years, and it is a
13 reasonable and equitable way to allocate the costs of new construction. The Cooperative's Arizona
14 customer base is only about 10 percent of its total customer base, and customer growth in Arizona is
15 not substantial. The public benefit that derives from consistent policies for all of Columbus'
16 customers out-weighs the benefit that might derive from insisting upon applying Arizona's policy to
17 less than 500 customers in the State. For these reasons, we will not require Columbus to modify its
18 line extension policy.

19 32. Staff noted that currently Columbus' Rules and Regulations do not include detailed
20 and specific estimation procedures that would be implemented in cases where Columbus is unable to
21 obtain actual meter reads. Staff states that in recent Commission rate case Decisions, applicants have
22 been ordered to file separate tariffs describing their bill estimation methodologies. Staff recommends
23 that Columbus submit through Docket Control, a separate tariff describing its bill estimation
24 methodologies for Commission consideration, within thirty days of a Decision in this matter. Staff
25 states the tariff should address, but not be limited to the following terms and conditions:

- 26 a. Conditions under which estimated bills will be billed to customers.

27 ¹² Tr. at 21.

28 ¹³ Tr. at 23.

¹⁴ Tr. at 61.

- 1 b. Notice of estimation clearly noted on estimated bills that are rendered to
2 customers.
- 3 c. Estimation procedures that explicitly address the conditions and procedures for
4 estimated bills such as kWh estimates where: i) at least one year of premise history
5 exists for the same customer at the same premise or a new customer with at least
6 one year of premise history; ii) less than one year of premise history for the same
7 customer at the same premises exists; iii) less than one year of premise history
8 exists for a new customer but some premise history exists for a new customer; and
9 iv) no prior consumption history exists.
- 10 d. Variations in estimation methods for differing conditions such as cases involving
11 meter tampering or damaged meters.
- 12 e. Conditions where bill estimation methods will be developed automatically or
13 manually.
- 14 f. Conditions where special procedures may be required such as the installation of
15 meters with automatic reading capabilities, the need to estimate first and final bills,
16 and the requirement to use customer specific data to complete an estimate.
- 17 g. Where applicable, clearly indicate that estimation procedures will be in accordance
18 with Arizona Administrative Code R14-2-210 and any other applicable section.

19 33. The Cooperative did not object to filing a bill estimation tariff.

20 34. Staff notes further that Columbus does not have any Commission-approved Demand
21 Side Management ("DSM") programs, although it does have an Energy Management and
22 Conservation Plan that has been filed in compliance with the New Mexico Administrative Code.
23 Columbus has indicated that this plan is available to all of its customers in Arizona and New Mexico.

24 35. Staff recommends that a DSM adjustor be established for Columbus in order to
25 recover the costs should Columbus in the future have a Commission-approved DSM program(s).
26 Staff states that a rate case is the most appropriate forum in which to establish a DSM adjustor. Staff
27 recommends that the associated costs of Commission-approved DSM programs be assessed to all of
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1 Columbus' Arizona electric customers, unless specifically exempted by the Commission. According
 2 to Staff's recommendation, once established, the DSM surcharge should be based on a per kWh
 3 charge and appear as a single line item, clearly marked, on customers' bills to ensure that customers
 4 are provided with the maximum level of transparency when reviewing their bills. Staff states that
 5 only DSM costs should be recovered through the DSM adjustor and any recovery for the first year of
 6 activity should be based on projections reviewed and approved by the Commission, and any over-
 7 collections or under-collections for DSM costs in subsequent years should be monitored in a DSM
 8 bank balance and any balance should be trued up annually, when the DSM adjustor rate is
 9 recalculated. Under Staff's recommendation, the DSM adjustor should be reset annually on a date set
 10 by the Commission, and the new adjustor rate must be approved by the Commission.

11 36. Staff recommends further that within six months of the effective date of a Decision in
 12 this matter that Columbus file a DSM program(s) for Commission approval.

13 37. The Cooperative opposes Staff's recommendations for a DSM adjustor mechanism
 14 because to have certain costs broken out only for Arizona customers affects the margin allocations to
 15 customers and would be contrary to the Cooperative's goal to treat all customer classes the same.¹⁵
 16 Mr. Martinez testified that New Mexico requires the Cooperative to submit an Energy Management
 17 and Conservation Plan.¹⁶ According to Columbus, that program requires Columbus to manage its
 18 energy purchases as efficiently as possible to avoid sharp spikes or valleys in demand. The program
 19 also includes rebates for heat pumps, energy star appliances and water heaters done in conjunction
 20 with the Cooperative's wholesale power supplier, Tri-State Generation and Transmission
 21 Association. The rebate programs are available to Arizona customers.

22 38. Staff's goal with respect to its DSM recommendation is to encourage conservation or
 23 energy.¹⁷ Staff's proposal for a DSM adjustor is to recover the costs of DSM programs.¹⁸

24 39. The Cooperative is engaged with DSM programs in conjunction with its wholesale
 25 supplier, which programs benefit Arizona customers. It does not appear to make economic or
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27 ¹⁵ Tr. at 24.

¹⁶ Tr. at 26.

¹⁷ Tr. at 59.

¹⁸ Tr. at 61.

1 logistical sense for Columbus to break-out DSM costs for only its Arizona consumers, who comprise
2 10 percent of its total customer base. Consequently, we will not require Columbus to file for
3 approval of DSM programs in Arizona, nor implement a DSM adjustor for Columbus' Arizona
4 customers at this time. To keep the Commission informed of its energy conservation efforts and the
5 DSM programs available to its members/customers, we direct Columbus to file a copy of its Energy
6 Management and Conservation Plan with the Arizona Commission whenever it files a new plan or
7 updates to the plan with the New Mexico Commission. Filing an extra copy of this plan in Arizona
8 should not add a significant administrative burden or cost for Columbus.

9 40. On October 13, 2009, Columbus filed a revised version of its Agricultural Service
10 (Schedule AS) tariff. Columbus proposed to change the current language in the Availability and
11 Monthly Rate sections of the tariff to more clearly define the customers eligible for this rate and
12 make the rate more readily available to customers. Columbus also filed a revised Irrigation Service
13 (Schedule I) tariff to transfer two hours per day usage from the On Peak rate to the Off Peak rate.
14 Columbus states that this revision is to the advantage of the customers served under this rate schedule
15 and allows the customers more flexibility in the use of this rate. Staff has no objections to Columbus'
16 additional proposed revisions to its Agricultural Service tariff or Irrigation Service tariff.

17 41. The proposed Schedule AS and Schedule I are reasonable and should be approved.

18 **CONCLUSIONS OF LAW**

19 1. Columbus is a public service corporation pursuant to Article XV of the Arizona
20 Constitution and A.R.S. §§ 40-250 and 40-251.

21 2. The Commission has jurisdiction over Columbus' operations within Arizona and the
22 subject matters of the application.

23 3. Notice of the proceeding was provided in conformance with law.

24 4. Columbus' Arizona FVRB is deemed to be \$1,699,565.

25 5. The rates, charges and conditions of service approved herein are just and reasonable
26 and in the public interest.

27 ...

28 ...

ORDER

IT IS THEREFORE ORDERED that Columbus Electric Cooperative, Inc. is hereby authorized and directed to file with the Commission, on or before June 30, 2010, revised schedules of rates and charges consistent with the discussion herein and a proof of revenues showing that, based on the adjusted test year level of sales, the revised rates will produce no more than the authorized increase in gross revenues.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after July 1, 2010.

IT IS FURTHER ORDERED that Columbus Electric Cooperative, Inc. shall notify its customers of the revised schedules of rates and charges authorized herein by means of an insert, in a form acceptable to Staff, included in its next regularly scheduled billing.

IT IS FURTHER ORDERED that Columbus Electric Cooperative, Inc. shall file a copy of its Energy Management and Conservation Plan with Docket Control as a compliance item in this Docket, whenever it files a new plan or update of the plan with the New Mexico Commission.

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IT IS FURTHER ORDERED that within 30 days of the effective date of this Decision, Columbus Electric Cooperative, Inc. shall file for approval of a tariff describing its bill estimation methodology.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of ____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

SERVICE LIST FOR: COLUMBUS ELECTRIC COOPERATIVE, INC.

DOCKET NO.: E-01851A-09-0305

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